The Report Committee for Ann Cox Montgomery
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Corporate Sustainability: Creating Shared Value in the 21st Century

APPROVED BY
SUPERVISING COMMITTEE:

____
Sheila Olmstead, Supervisor

____
Meeta Kothare, Co-Supervisor

Corporate Sustainability: Creating Shared Value in the 21st Century

by

Ann Cox Montgomery

Report

Presented to the Faculty of the Graduate School of

The University of Texas at Austin

in Partial Fulfillment

of the Requirements

for the Degrees of

Master of Public Affairs

and

Master in Business Administration

The University of Texas at Austin

May 2018

Abstract

Corporate Sustainability: Creating Shared Value in the 21st Century

Ann Cox Montgomery, MPAff/MBA

The University of Texas at Austin, 2018

Supervisors: Sheila Olmstead, Meeta Kothare

The focus of this paper is to analyze companies' motivations in adopting sustainability goals and metrics as internal policies. In establishing a sustainability strategy, are companies motivated primarily by shareholder profits or do companies act based on moral obligations or a perceived benefit to society? The underlying question asks whether or not the adoption of sustainability policies necessitates a departure from the standard economic prescription to maximize shareholder value.

In the first chapter, this paper traces sustainability practices across several business models, beginning with the Milton Friedman model of maximizing shareholder profit and ending with the Shared Value model, which emphasizes collective action and business strategies that increase both social and corporate value. The next two chapters examine specific case studies of large consumer-facing companies that have successfully adopted sustainability strategies: Wal-Mart and Unilever. In the fourth chapter, I conclude that in a world affected by climate change with increasingly constrained resources, maximizing shareholder value mandates that companies pursue a collective action strategy by engaging external stakeholders and political advocacy.

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Introduction to Green Corporate Strategies: Theoretical Models of Firms' Motivations

In the wake of growing environmental concerns from consumers and regulators over the past decade, many companies have introduced products and practices meant to enhance sustainability, meeting "the needs of today while preserving resources for tomorrow."[1] Food companies tout organic practices, local supply sources, and recyclable packaging. Clothing companies advertise their ethical supply chain and recyclable fabrics. Even oil and gas companies highlight how they are actively working to reduce their carbon footprint. These operational greening strategies highlight the increasing proportion of private sector companies adopting sustainability strategies in the wake of rising costs of critical resources, mounting consumer pressure, and increased governmental regulation. Remarking on this trend, McKinsey Global Managing Partner Dominic Barton stated that "A sustainability agenda goes hand in glove with the performance of a company or an organization."[2] This represents a departure from the dominant business strategies of the twentieth century, which largely viewed environmental features as materials to be exploited rather than resources to be preserved.

The Environmental Protection Agency defines sustainability as "the conditions under which humans and nature can exist in productive harmony to support present and future generations."[3] For a corporate entity, this means capturing value for the firm "either in readily measurable ways like a reduction in ongoing out-of-pocket costs, or in intangible

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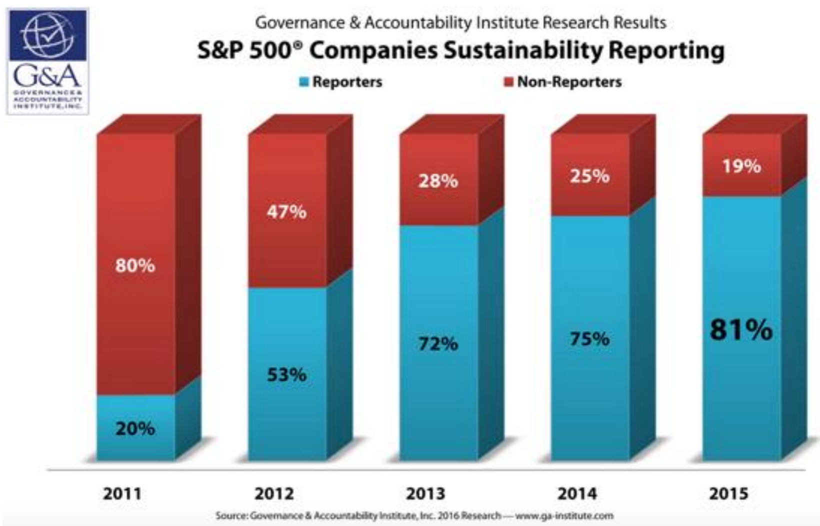
[1] David Gelles, "Unilever Finds That Shrinking Its Footprint Is a Giant Task," *The New York Times*, November 21, 2015.
[2] "Sustainability is a Change Management Program," The Future Economy Project, *Harvard Business Review*, accessed May 2, 2018, https://hbr.org/2017/11/the-future-economy-project-qa-with-dominic-barton.
[3] Gelles.

ways that involve corporate culture, reputation, and employee commitment."[4] According to the S&P 500, the majority of companies have published sustainability reports since 2012, which is likely when recovery from the Great Recession accelerated, with 81% reporting in 2015 (Figure 1).

Figure 1: S&P 500 Companies Sustainability Reporting[5]



The question has certainly been raised as to whether this marriage of business and environmental strategy is a passing trend, but the vast majority of business analysts point to the significant investments made as proof that sustainability strategies are a lasting development. In what *Forbes* referred to as a "watershed moment,"[6] Larry Fink, CEO to the $6 trillion asset manager Blackrock, wrote to CEOs of public companies in January 2018 telling them that "To prosper over time, every company must not only deliver

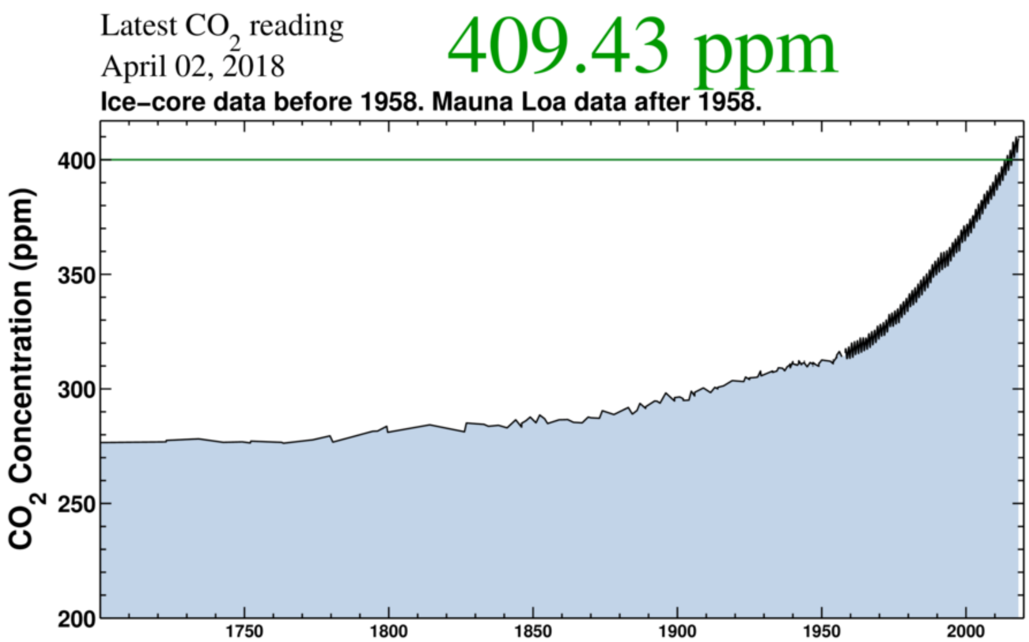
[4] Forest Reinhardt, *Down to Earth: Applying Business Principles to Environmental Management* (Boston: Harvard Business Review, 2000), *9*.
[5] Jessica Lyons Hardcastle, "81% of S&P 500 Companies Published Sustainability Reports in 2015," *Environmental Leader,* June 30, 2016, https://www.environmentalleader.com/2016/06/81-of-sp-500-companies-published-sustainability-reports-in-2015/.
[6] Peter Horst, "Blackrock CEO Tells Companies To Contribute To Society. Here's Where To Start," *Forbes*, January 16, 2018, https://www.forbes.com/sites/peterhorst/2018/01/16/blackrock-ceo-tells-companies-to-contribute-to-society-heres-where-to-start/#1fe7ec32971d.

financial performance, but also show how it makes a positive contribution to society."[7] The significance of a major U.S. investment institution asking companies to look beyond shareholder returns as a primary strategy cannot be overstated. One potential explanation is a shifting of the business community's priorities in the twenty-first century away from the traditional focus solely on profit.

If true, this shift is particularly surprising given the historical and stereotypical antagonism between environmental activists and the business community. According to Porter and van der Linde (1995), "The relationship between environmental goals and industrial competitiveness has normally been thought of as involving a tradeoff between social benefits and private costs. The issue was how to balance society's desire for environmental protection with the economic burden on industry."[8] With climate change specifically, the reason that capitalism stands at odds with environmental concerns is because industrialization has a direct causal link with climate change. The Keeling Curve (Figure 2) is a plot of atmospheric carbon dioxide concentration over time. The Curve shows cyclical norms that span thousands of years with a major increase in CO_2 only after 1850, when industrialization occurred in the Western world. Levels then rose exponentially after 1950 as industrialized nations developed.[9]

[7] "Larry Fink's Annual Letter to CEO's," BlackRock, accessed May 2, 2018, https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.
[8] Michael E. Porter and Claas van der Linde, "Toward a New Conception of the Environment-Competitiveness Relationship," *The Journal of Economic Perspectives* 9, no. 4 (Autumn 1995): 97-118.
[9] Nicola Jones, "How the World Passed a Carbon Threshold and Why It Matters," *Yale Environment 360*, January 26, 2017, https://e360.yale.edu/features/how-the-world-passed-a-carbon-threshold-400ppm-and-why-it-matters.

Figure 2: The Keeling Curve[10]



In their book, *Progressive Business Models*, Eleanor O'Higgins and László Zsolnai remark, "Business models vary but almost none of them are consistent with the flourishing life on Earth (including human, nonhuman, and future life)."[11] As awareness of the negative effects of climate change increases, numerous complaints against capitalism and corporate business have been leveraged. In 2013 Ban Ki-moon, the secretary-general of the United Nations, stated,

> "Several factors still hold us back from achieving the large-scale energy transformation necessary to stabilize the climate… Globally, clean energy investment is insufficient to prevent the worst impacts of climate change. Proven innovations and solutions—from energy efficiency to emissions reductions—lack adequate incentives, while fossil fuels still enjoy generous subsidies. Too many companies limit their sustainability efforts to pilot

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[10] "The Keeling Curve," Scripps Institution of Oceanography, accessed April 3, 2018, https://scripps.ucsd.edu/programs/keelingcurve/.

[11] Eleanor O'Higgins and László Zsolnai, *Progressive Business Models: Creating Sustainable and Pro-Social Enterprise* (London: Palgrave-Macmillan, 2017), 289.

> programs that never take off. We need to scale up our efforts and our ambition. The climate clock is ticking."[12]

According to O'Higgins and Zsolnai, "The future of business highly depends on its ability to renew its business models…to achieve meaningful change in the humanity-nature nexus business organizations should reinvent the way they function."[13] As evidenced by the increasing adoption of corporate sustainability strategies, this viewpoint is no longer relegated to environmental organizations, but may increasingly be a consideration in the boardroom.

The focus of this paper is to analyze companies' motivations in adopting sustainability goals and metrics as internal policies. In establishing a sustainability strategy, are companies motivated primarily by shareholder profits or do companies act based on moral obligations or a perceived benefit to society? The underlying question asks whether or not the adoption of sustainability policies necessitates a departure from the standard economic prescription to maximize shareholder value.

In the first chapter, this paper traces sustainability practices across several business models, beginning with the Milton Friedman model of maximizing shareholder profit and ending with the Shared Value model, which emphasizes collective action and business strategies that increase both social and corporate value. The next two chapters examine specific case studies of large consumer-facing companies that have successfully adopted sustainability strategies: Wal-Mart and Unilever. In the fourth chapter, I conclude that in a world affected by climate change with increasingly constrained resources, maximizing

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[12] "Secretary-General's remarks at Bloomberg New Energy Finance Summit [as prepared for delivery]," United Nations Secretary-General, April, 24, 2013. https://www.un.org/sg/en/content/sg/statement/2013-04-24/secretary-generals-remarks-bloomberg-new-energy-finance-summit.
[13] O'Higgins and Zsolnai, 289.

shareholder value mandates that companies pursue a collective action strategy by engaging external stakeholders and political advocacy.

Chapter 1: Tracing Firm Behavior from Friedman to Shared Value

1.1 Friedman and his Critics

The natural starting place for evaluating firm behavior along sustainability lines is the theory popularized by Milton Friedman, whom *The Economist* described as "the most influential economist in the second half of the 20th century…possibly of all of it."[14] In his famous 1970 *New York Times Magazine* article, Friedman argued that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."[15] According to the article, social responsibilities can only logically be ascribed to human individuals, but not to businesses; any corporate executive who acts out of "social responsibility" on behalf of a business is actually "spending someone else's money for a general social interest…reduc[ing] returns to stockholders." By maximizing shareholder value, businesses enable Adam Smith's invisible hand to operate without external influence, yielding the efficient market solution.[16] In this model, any incentive to internalize externalities with social costs, like pollution, comes from government regulation, not the profit market in the market itself.

Since Friedman made his argument, established in 1962's *Capitalism and Freedom*, it has become the standard by which other business models are evaluated, in addition to the assumption under which the majority of businesses in a capitalist system operate.[17]

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14 "Milton Friedman: A heavyweight champ, at five foot two," *The Economist*, November 23, 2006, https://www.economist.com/node/8313925.

15 Fulton Friedman, "A Friednzan Doctrine," *The New York Times,* September 13, 1970, https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html.

16 Ibid.

17 Justin Fox, "The Social Responsibility of Business Is to Increase …What Exactly?" *Harvard Business Review*, April 18, 2012, https://hbr.org/2012/04/you-might-disagree-with-milton.

Although numerous economists, businesspeople and academics have proposed alternative economic models, Friedman's nonetheless represents the main point of comparison from which other models begin.

An enhancement of the Friedman theory that evolved in the later 1970s is the Agency Theory. In 1976, Michael Jensen and William Meckling described the theory, arguing that in the principal-agent relationship between managers and shareholders, managerial action tends to depart from the behavior required to maximize shareholder profits. As a result, they concluded, it is important to incentivize managers to align their behavior with the owners, or shareholders, such as by tying compensation to shareholder returns. Firms operating under the Agency Theory thus traditionally place pressure on managers to deliver high shareholder returns.[18] As quarterly earnings calls and activist investors have become more normalized in recent decades, this has increasingly meant that managers focus on short-term financial results rather than on long-term sustainability.[19] The Agency Theory thus continues the tradition of maximizing shareholder value, defining the parameters through which it can be achieved.

Before examining the critiques of Friedman's argument, it is worth reviewing the conditions necessary for markets to perform efficiently when left untouched from government or other intervention. Economic theory dating to its origins recognizes that specific market failures like externalities and the tragedy of the commons – both strongly relevant to sustainability – result in inefficient use and allocation of resources, creating welfare losses.[20] A classic example of negative environmental externalities is the

[18] Michael C. Jensen and William H. Meckling, "Theory of the firm: Managerial behavior, agency costs and ownership structure," *Journal of Financial Economics* 3, No. 4 (October 1976): 305-360.
[19] Joseph L. Bower and Lynn S. Paine, "The Error at the Heart of Corporate Leadership," *Harvard Business Review*, May 2017, https://hbr.org/2017/05/managing-for-the-long-term.
[20] Don Fullerton and Robert Stavins, "How economists see the environment," *Nature* 395 (October 1998): 433-434.

manufacturer who releases toxic pollutants into a nearby river as a result of its processes. The same river is used for public recreation, but becomes less valuable as a result of the pollution. Because the manufacturer does not include the cost of pollution in its cost function, it continues to pollute, imposing damages on other stakeholders, and creating deadweight loss to society.

These common market failures are important caveats to the standard economic suggestion that firms following Friedman's edict to maximize shareholder value will necessarily maximize welfare, because they reveal that leaving the market on its own can result in major inefficiencies and inequities. Society may also be concerned with inequities that arise in well- and poorly-functioning markets. To correct these market failures, critics have proposed legislative or administrative reforms. Rather than command and control policies like environmental production limits, economists favor market solutions such as taxes or cap and trade because they result in less inefficiency, and ultimately deadweight loss, to society.

Additionally, private resolution, or Coasian bargaining, is another option through which the efficient allocation of resources in the presence of externalities can occur. In 1960, Ronald Coase argued that costless bargaining is possible when parties with clearly defined property rights negotiate directly. The resulting solution to the externality problem becomes one of assigning property rights to businesses; as a result, businesses can be incentivized through payment to abandon activities causing harm to third parties.[21] To consider the issue of environmental pollution, a factory will be willing to pay for the right to pollute, a byproduct of its current production practices, up to the limit where the cost of polluting is of equal value to that of clean air; once the value of clean air surpasses the cost

[21] R.H. Coase, "The Problem of Social Cost," *Journal of Law and Economics* 3 (October 1960), 1-44.

of pollution, people will be able to pay the firm to reduce pollution.[22] Coasian bargaining, or private strategies and solutions to environmental market failures, are the focus of this paper, as opposed to the actions of businesses responding to legislative or administrative regulation.

1.2 REINHARDT MODEL: FRIEDMAN 2.0

In reviewing businesses that have chosen sustainable business strategies, it is evident that the choice to adopt such policies has not been one that necessarily requires departing from the Friedman strategy; case studies indeed show that operational greening can result in increased profits. This idea is best articulated by Forest Reinhardt, Harvard Business School professor and environmental economist. In his book *Down to Earth*, Reinhardt espouses Friedman economics, saying that "companies are in business to make money for their owners, and [that] they can pursue the satisfaction of other stakeholders only insofar as it serves this basic purpose." For Reinhardt, managing for stakeholder profits does not mean that environmental concerns are ignored; on the contrary, choices made in order to increase profits often result in the environmentally optimal choice:

> "Companies that manage the environment successfully—satisfying environmental demands while delivering superior value to their shareholders—do not see the environment exclusively as a problem of social responsibility, but rather as a fact of life to be incorporated into business plans like any other… to think about the environment as a problem of social responsibility or ethics is to miss opportunities to incorporate it into basic business decision making in ways that increase profits, reduce risks, or both."[23]

The Reinhardt model, therefore, can be said to serve as an extension of Milton Friedman's profit maximization strategy. He has been called "at least implicitly and perhaps

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[22] "Coasian bargaining," Environmental Justice Organisations, Liabilities and Trade, accessed May 2, 2018, http://www.ejolt.org/2015/09/coasian-bargaining-2/.
[23] Reinhardt, X.

unconsciously, a disciple of Milton Friedman" because he "treats corporate social responsibility only in economic terms."[24] Indeed, *Down to Earth* explains sustainability strategies as a byproduct of forces such as the consumer's willingness to pay for the product and the economies of scale that provides the firm cost advantages.

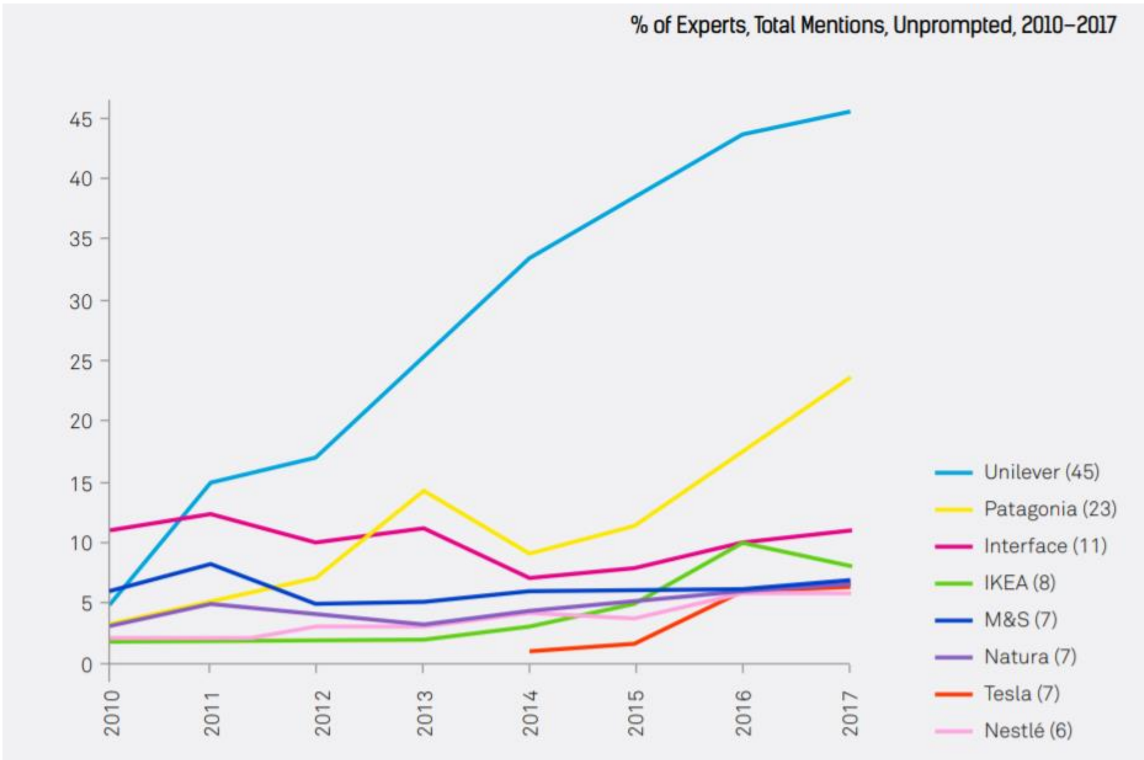
Like Reinhardt, other economists and business leaders have concluded that smart, contemporary business sense may more or less necessitate actions that are consistent with sustainability principles, simply because those actions have net benefits for firms. Specifically in the case of concern regarding climate change, in *Climate Capitalism*, L. Hunter Lovins and Boyd Cohen remark,

> "Smart companies now recognize that tolerating wasteful energy use and higher carbon emissions is a high-risk strategy. Geopolitical volatility, the unpredictability of energy supplies, price increases, threats to business from extreme weather events, and the risk of liability claims for failing to manage carbon output all make carbon reduction a good business strategy."[25]

The examples listed above are reasons why firms might incorporate environmental concerns into their business model, and explain why firms in industries exposed to more climate environmental risk may be more likely to do this than others. According to research consultancy GlobeScan, the most recent decade has shown large consumer and technology companies emerging as leaders in the sustainability influencer space (Figure 3). This marks a shift from the pre-Great Recession period, during which fossil fuel companies were recognized as the top corporate sustainability leaders by sustainability experts (Figure 4).[26]

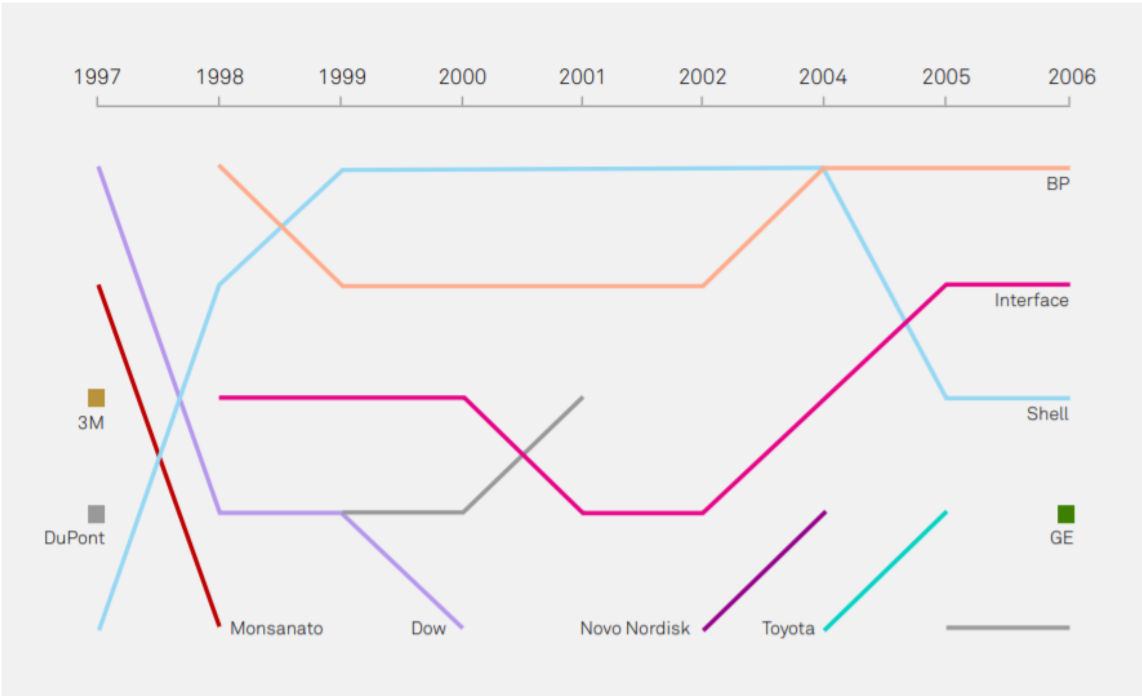
[24] Bruce L. Hays, Robert Stavins, and Richard Victor, eds, *Environmental Protection and the Social Responsibility of Firms: Perspectives from Law, Economics, and Business* (Washington, D.C.: Resources for the Future, 2005), 189.
[25] L. Hunter Lovins and Boyd Cohen, *Climate Capitalism* (New York: Hill and Wang, 2011), 8.
[26] Alison Moodie, "Unilever and Tesla top list of companies leading the fight on climate change – survey," *The Guardian*, November 12, 2015, https://www.theguardian.com/sustainable-business/2015/nov/12/climate-survey-change-conference-unilever-tesla-united-nations.

Figure 3: GlobeScan's Top 5 Ranked Companies for Sustainability Leadership, 2010-2017[27]



27 "Sustainability Leaders: Celebrating 20 Years of Leadership." GlobeScan. accessed May 2, 2018. https://globescan.com/wp-content/uploads/2017/07/GSS-Leaders-2017-Survey-Report.pdf.

Figure 4: GlobeScan's Top 5 Ranked Companies for Sustainability Leadership, 1997-2006[28]



Dow Chemical Company serves as an example of the Reinhardt model because it has "long been a champion of the idea that increased attention to environmental matters saves the company money."[29] One simple change the company made beginning in 1988 was to alter the engineering of its waste treatment processes in order to reuse the hydrochloric acid the centers were producing. The transformation cost $250,000 but saved $2.4 million per year.[30] In an entirely different industry, tech giant Intel "adopted a portfolio approach to reducing emissions," including significant investments in energy conservation, renewable energy credits, and onsite solar installations. While this has not resulted in initial cost reductions for the firm, company representatives have argued that the increased investment is outweighed by the long-term benefits it will experience by

[28] Ibid.
[29] Reinhardt, 84.
[30] Ibid, 85.

switching to alternative energy sources.[31] According to Alice Korngold, author of *A Better World, Inc.*, "Intel is making energy efficiency its business—to generate profits while advancing the global agenda to address climate change."[32]

1.3 Movement to a Shared Value Model

Some firms move beyond maximizing shareholder value and incorporate environmental social policies as a first matter of priority, rather than being motivated simply by operational efficiency. In their 2006 paper, Michael Porter and Mark Kramer wrote about the increasing pressure on companies to address corporate social responsibility (CSR), stating that "the essential test that should guide CSR is not whether a cause is worthy but whether it presents an opportunity to create shared value—that is, a meaningful benefit for society that is also valuable to business."[33] Porter and Kramer delineate the steps a company can take to identify its value chain (Figure 5), arguing that "rather than merely acting on well-intentioned impulses or reaction to outside pressure, the organization can set an affirmative CSR agenda that produces maximum social benefit as well as gains for the business."[34] Rather than solely focusing on the maximization of shareholder profit, the shared value model puts social benefits squarely in the realm of corporate responsibilities, along with maximizing returns to shareholders. This represents a substantial change in firms' objectives functions, relative to the Friedman and Reinhardt models.

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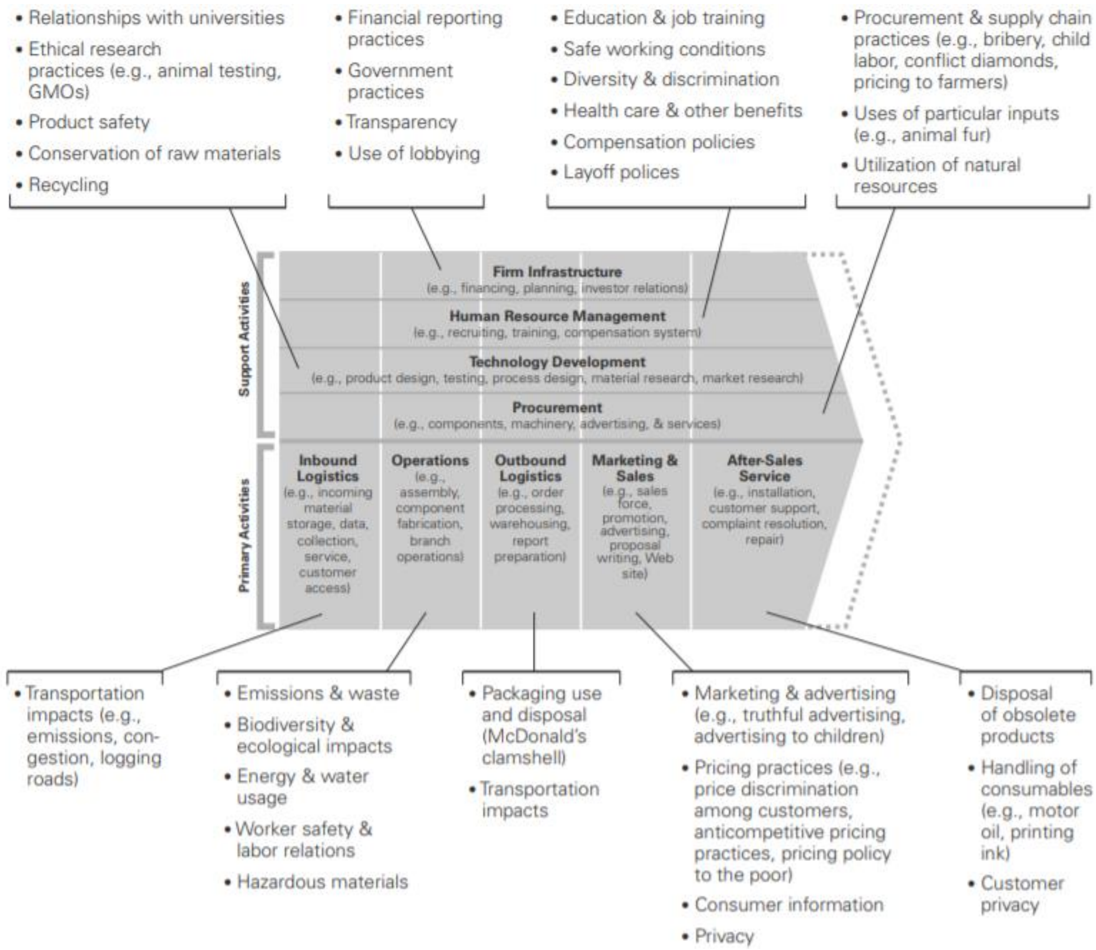
31 Alice Korngold, *A Better World, Inc* (New York: Palgrave Macmillan, 2014), 42-43.
32 Ibid, 46.
33 Michael E. Porter and Mark R. Kramer, "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility," *Harvard Business Review* 84, no. 12 (December 2006), 80.
34 Ibid, 82.

Figure 5: Mapping out the Social Impact of the Value Chain[35]



Michael Toffel, Harvard Business School professor and economist offers another paradigm of what an alternative business model could encapsulate. Toffel has written extensively on corporate leader activism, and has specifically turned his attention to climate change in some of his recent work. When considering the massive global issue of climate change, Toffel extends beyond Reinhardt to argue that firms have a moral and social imperative to commit resources to environmental protection. According to an article that Toffel wrote with Auden Schendler,

[35] Ibid.

> "Operational greenings are necessary but hardly sufficient: they don't address the scale of the problem. Since climate change requires a systematic solution that only governments can provide, firms serious about sustainability have a critical role well beyond greening their own operations. They must spur government action.[36]"

In an interview with *Harvard Business Review*, Toffel explained why corporate activism is necessary given the market failures evident in the climate change issue:

> "It's not clear how much value you add to your organization by, for example, mitigating 10% of your carbon footprint … it's hard to make that case at the scale of mitigation measures that are required. And so we have a classic tragedy of the commons here: Why should a company bother to massively invest in mitigation if everyone is going to share from those gains? This is why mitigation requires government policy mandates, and I think CEOs should try to use their power of persuasion to try to get government to require mitigation."[37]

All firms lose from climate damages, but none can solve the problem through independent action; indeed, Porter and Kramer note that "where a social issue is salient for many companies across multiple industries, it can often be addressed most effectively through cooperative models."[38] This is a key feature of a collective action problem, which in game theory is played out as the classic prisoner's dilemma. In the real-world game of climate change, there is little incentive for individual companies to mitigate damages because it is costly and the benefits are free to everyone, but because most parties choose not to abate, the entire group experiences more negative outcomes. Realizing that they would be better off with increased cooperation across stakeholders, companies can achieve a better outcome by engaging in collective action. Arguably, large global businesses like the case studies of Wal-Mart and Unilever "have the resources, global reach, and self-

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[36] Michael Toffel and Auden Schendler, "Greening is not enough: 4 steps to corporate leadership on climate change," Network for Business Sustainability, July 8, 2013, https://nbs.net/p/greening-is-not-enough-4-steps-to-corporate-leadership-c01fb142-db53-4b92-8501-166b3326793e.

[37] "Future Thinking," *Harvard Business Review,* The Future Economy Project, accessed May 2, 2018, https://hbr.org/2017/12/sgc-the-future-economy-project-advice-from-sustainability-experts.

[38] Porter and Kramer, 82.

interest to make progress on the global warming agenda."[39] This model essentially envisions firms as engaged in the same kind of climate policy interactions as nation-states, with the largest firms—especially those with the most at stake—incentivized to lead in building a "coalition of the willing."

In practice, cooperation across firms involves both private Coasian resolution of externalities as well as political action. In terms of private bargaining, large corporations do this by influencing key stakeholders such as suppliers without the intervention of regulation. Outdoor clothing company Patagonia engages its suppliers through a range of due diligence activities in order to ensure that sustainable production practices are used.[40] In terms of political activism, firms engage in lobbying, aligning trade groups, and marketing their efforts.[41] In March 2018, for instance, The Global Fashion Agenda—a fashion industry non-profit focused on sustainability—released its "CEO Agenda," which provides the industry both guidance and focus on the climate change issue, including supply chain traceability, efficient use of raw materials, and workplace safety. The new initiative has been backed by major fashion players, including retailer Target and luxury group Kering.[42] Generally industry groups like The Global Fashion Agenda initially agree on promoting practices that go beyond what is currently mandated by law, but in promoting the practices they influence others in the industry and can also move forward to lobby for policy change.

Chapters three and four present two separate case studies of companies employing the Shared Value model in their sustainability practices. Both companies have recognized

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[39] Korngold, 41.
[40] "Working with Factories," Patagonia, Corporate Responsibility, accessed May 2, 2018, http://www.patagonia.com/working-with-factories.html.
[41] Toffel and Schendler.
[42] Michelle Russell, "Fashion giants spell out CEO sustainability agenda," *Just-Style*, March 27, 2018, https://www.just-style.com/news/fashion-giants-spell-out-ceo-sustainability-agenda_id133182.aspx.

that the nature of the climate change problem is one of collective action, requiring the engagement of external stakeholders. The companies, Wal-Mart and Unilever, possess divergent brand images and customer-facing positions, but ultimately utilize both private bargaining tactics and political activism in order to approach the climate change issue.

Chapter 2: Shared Value at Wal-Mart

"Sustainability and empire have become inextricably linked in an unexpected and unprecedented way."[43]

In 2005, mega-retailer Wal-Mart initiated a surprising list of corporate changes. Over the course of the next decade, the global superstore began developing a sustainable food system, reducing greenhouse gas emissions from its supply chain, and improving the efficiency of its transportation network. These changes were a purposeful operational greening on the part of the company; as a result, Wal-Mart serves as an example of Reinhardt's model, choosing sustainability strategies because of the positive impact on maximizing shareholder value. Wal-Mart also represents an example of the Shared Value model because it has influenced the business processes of its suppliers and further advocated for climate change regulation.

2.1 The Decision to go Green: Focus on Performance

In 2005, Wal-Mart CEO H. Lee Scott announced the company's goals to produce zero waste, be fueled by 100 percent renewable energy, and sell sustainable products by 2025. In his announcement, Scott posed a rhetorical question that drew attention to the significant impact the corporation's decision could have:

> "What if [Wal-Mart] used our size and resources to make this country and this earth an even better place for all of us: customers, Associates, our children, and generation unborn? What would that mean? Could we do it? Is this consistent with our business model? What if the very things that many people criticize us for—our size and reach—became a trusted friend and ally to all?"[44]

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[43] Edward Humes, *Force of Nature: The Unlikely Story of Wal-Mart's Green Revolution* (New York: HarperCollins, 2011), 10.

[44] "Twenty First Century Leadership," Walmart. Sustainability, accessed May 2, 2018. https://corporate.walmart.com/_news_/executive-viewpoints/twenty-first-century-leadership.

But why did the retailer make this decision to significantly alter its existing processes? In *Force of Nature*, Edward Humes catalogs Wal-Mart's decision to go green, describing how in 2004 the company "had become a poster child for global warming, mass extinction, smog, and urban sprawl," and was being assaulted by more lawsuits than any other corporation in the world, resulting in eight percent of Wal-Mart's prior customers choosing to forgo shopping there due its negative image.[45] Rather than doubling down on its current strategy, Wal-Mart did something unexpected: it thoroughly changed its modus operandi on a fundamental level, instead of simply implementing a one-off PR-facing campaign as the majority of other profit-focused companies have done. Scott's commitment to true transformation was evident in the fact that he did not hand off this task to other departments but rather took on the task himself. This was done in order to ensure the sustainability strategy was "baked …into Walmart's DNA … to catch fire with the buyers, salespeople, logistics managers, truck drivers, product designers, building and maintenance staff, and all the other hands-on Wal-Mart employees and managers worldwide."[46]

The transformation at Wal-Mart started with identifying "low-hanging fruit" that quickly eliminated cost and enhanced performance for the company. The first step was reducing packaging across all types of products. The environmental consultant that Wal-Mart hired, Blue Skye, told Wal-Mart executives in its first meeting,

> "Right now, the company pays people to haul most of [its waste] away … The more sensible approach would be, first, to reduce the waste by making packaging and process more efficient and, second, to recognize that the waste has value that can be recaptured instead of dumped in a landfill: recycled plastic, recycled paper, food waste used to make energy or compost."[47]

[45] Humes, 13-14.
[46] Ibid, 109-110.
[47] Ibid, 73-75

By reframing the way these executives thought about the sustainability problem, the environmental consultants enabled executives to see the benefit of reducing waste and choosing sustainable materials.

This same type of thinking enabled another step: on-the-ground managers identified waste and inefficiencies to find savings across departments, from the already efficiency-focused transportation team to the frozen food aisle. Teams within the company, called "Sustainable Value Networks," focused on different product categories or systems. These teams were noteworthy not only for their focus on sustainability, but also because they represented the first time that Wal-Mart opened itself to external stakeholders. In order to successfully delve into the new world of sustainability and environmental efficiency, Wal-Mart had to involve other stakeholders including suppliers, academics, scientists, and environmentalists, leaving the "Bentonville Bubble" in which it had operated for years. In exchange for their service towards the teams' pursuit of business and environmental sustainability, external participants "gained" information about and a say in Wal-Mart's operations. Within one year, the Sustainable Value Networks achieved net cost savings equivalent to the profits generated by multiple Wal-Mart supercenters.[48]

In one sense, "going green" seems like a stark contrast from what Wal-Mart symbolizes in the American lexicon, and indeed, from Friedman's maxim to maximize shareholder profits. According to Humes, "Its size and dominance, so often linked to negatives—the death of local businesses, declines in wages, declines in quality, the outsourcing of U.S. industry—is now also being used to drive sustainability and environmental protection."[49] Particularly considering what Wal-Mart has symbolized to

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[48] Erica L. Plambeck and Lyn Denend, "The Greening of Wal-Mart," *Stanford Social Innovation Review*, Spring 2008, Accessed May 2, 2018, https://ssir.org/articles/entry/the_greening_of_wal_mart.
[49] Humes, 9.

environmental activists, the move to "green" is a different view of the company. Nonetheless, Wal-Mart made the decision to go green using the very same business strategies of cost-cutting and efficiency upon which it was established in the first place. Humes argues, "Make no mistake: Wal-Mart's commitment to sustainability is not grounded in philanthropy or activism or conscience. It is based on a belief that sustainability can be good for the business, good for competitiveness, good for the bottom line."[50]

2.2 Reliance on Metrics and Supplier-Facing Initiatives

Even into the twenty-first century, Wal-Mart's tag line, "Always the low price. Always," continues to reflect the company's most important priority. In *The Wal-Mart Effect*, Charles Fishman states that "Wal-Mart wields its power for just one purpose: to bring the lowest-possible prices to its customers. At Wal-Mart, that's a goal that is never met."[51] This relentless dedication to the customer's preference for low prices affects the corporation's policies on pricing, employee wages, and even real estate locations. Once Lee Scott made sustainability a major goal of the company, this became another means by which Wal-Mart could achieve the lowest possible prices. For the first few years of the corporate giant's sustainability endeavor, this was achieved through individual initiatives, such as reducing the packaging for a Kid Connection car toy set, resulting in $3.5 million in transportation cost reduction and saving 5,100 trees.[52]

Despite the success of these individual initiatives, "measuring and labeling sustainability attributes across a wide range of products also emerged as an ongoing

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[50] Humes, 9.
[51] David Fishman. *The Wal-Mart Effect* (New York: The Penguin Press, 2006), 88.
[52] Andrew Spicer and David Hyatt, "Walmart's Emergent Low-Cost Sustainable Product Strategy," *California Management Review* 59: no. 2 (2017): 121.

challenge," driving the "need for a holistic standard."[53] In 2009, Wal-Mart created "The Index" along with The Sustainability Consortium, a collective action organization designed to steer its direction. The idea behind the Index was that in the future, all products would include tags ranking the product (from 1 to 100) for sustainability, health, and social and ethical factors. Wal-Mart's vision was not that the Index should simply exist within its own network, but also that its competitors and other industries should adopt it.[54] Walmart CEO Mike Duke—who succeeded Lee Scott in 2009 and advanced the company's sustainability agenda—described the purpose behind the Index at the 2009 Walmart Sustainability Milestone Meeting:

> "The Index will bring about a more transparent supply chain, drive product innovation, and, ultimately, provide consumers the information they need to assess the sustainability of products … It is not our goal to create or own this Index; we want to spur the development of a common database that will allow the consortium to collect and analyze the knowledge of the global supply chain."[55]

To launch the Index, Wal-Mart polled over 100,000 suppliers questions about their operations, asking about greenhouse gas emissions, procurement policies, and supply chain transparency. This served not only to gather information about the current systems, but also primed suppliers to "begin thinking more deeply about their practices."[56] The Index, ultimately led by the multi-stakeholder consortium at the University of Arkansas and Arizona State University, developed sustainability metrics and the weights assigned to each attribute affecting the product's final score after a period of experimentation over multiple

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[53] Ibid.
[54] Ibid.
[55] Walmart, "Sustainability Milestone Meeting," Sustainability, accessed May 2, 2018. https://corporate.walmart.com/_news_/executive-viewpoints/working-together-to-make-a-difference.
[56] Spicer and Hyatt, 128-129.

types of products. The group utilized a web program into which companies would simply input the product type and recipe information in order to calculate the final score.[57]

By 2012, Wal-Mart initiated the Live Better scorecards for numerous types of products for suppliers who responded to the questionnaire; by the next year, the scorecards spanned over 200 of the most significant product categories in Wal-Mart's U.S. stores.[58] The resulting metrics "could be voluntarily adopted by member organizations, [but Wal-Mart] refrained from entering the business of actually presenting sustainability labels to customers" in order to enable "different stakeholders" to "create different labels from the same system."[59] Supplier-facing economics has always been a significant part of Wal-Mart's strategy, particularly in shifting its own costs to its suppliers. In the case of climate change policy, however, it shows that Wal-Mart serves as an example of the Shared Value model, embracing the need for collective action.

Humes compares Wal-Mart's supply chain greening to government regulation, noting the key distinction: "Wal-Mart suppliers still have a choice. They can accept the sustainability mandate, or they can refuse and take their business elsewhere."[60] Characterizing negative corporate responses to Wal-Mart's sustainability initiative, Humes notes that "Without actually saying so, most of these attacks sought to resurrect the 1970s economic theories of the free-market icon Milton Friedman … In 2010, a new concern was being voiced: instead of taxes and regulation getting in the way, it was corporate spending on sustainability and other CSR causes that would impede recovery from the economic recession." Humes returns to the same thesis he recalls throughout the entirety of *Force of Nature*, which is to remind the reader that Wal-Mart's initiatives were pursued not out of

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[57] Humes, 203.
[58] Spicer and Hyatt, 128.
[59] Ibid, 123-127.
[60] Humes, 213.

altruism or community-mindedness, but rather out of concern for its own economic survival. The idea that both economic profits and sustainability can be pursued simultaneously is one that Wal-Mart has arguably made more palatable to the business community, demonstrating that the two need not necessarily be at odds with each other.

Humes brings up the point that in addition to making the choice for efficiency and cost-cutting, Wal-Mart made the decision to go green as a way to make it relevant to future customers. "No leading retailer has ever maintained its dominance beyond a single generation…Wal-Mart's leaders believe their best hope to break this pattern and cheat history is to embrace that which the next generation of customers cares about most: clean air, clean energy, the environment, and nature."[61] A 2015 consumer survey by Nielsen shows that 66% of global respondents are willing to pay more for products that come from companies that are committed to social and environmental causes, up from 55% in 2014 and 50% in 2013. The percentages are even more favorable for younger consumers; 72% of Generation Z (aged 15-20) respondents were willing to pay more for those products.[62]

Despite this customer-driven motivation, the Live Better Scorecards have yet to have a public-facing component, instead merely serving as an internal and supplier-facing initiative. The company has faced criticism of "greenwashing," or presenting a corporate environmental image without substance, from many environmental activists. Humes explains why moving to a customer-facing initiative would be difficult for Wal-Mart to achieve, because it means thousands of companies publicly recognizing the harm they have caused the environment: "no one is going to get the sustainability equivalent of a 4.0."[63]

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[61] Ibid 10.

[62] Nielsen, "Green Generation: Millennials Say Sustainability is a Shopping Priority," November 5, 2015, http://www.nielsen.com/us/en/insights/news/2015/green-generation-millennials-say-sustainability-is-a-shopping-priority.html.

[63] Humes, 204-205.

As of the publication of this paper, no recent announcements have been made indicating the fate of a customer-facing scorecard.

Indeed, although Wal-Mart's internal transformation over the past decade has been widely covered in business literature, it is not well-known on a customer level. Unlike other companies such as Patagonia, Whole Foods, and REI, Wal-Mart is not branded as a "green" company. An article in *Retail Dive* explains, "This might strike some as a missed opportunity—Wal-Mart is essentially passing on a way to attract a more diverse consumer base and bring itself positive press... [but] this is likely a calculated move, one the company uses to avoid judgment from critics and customers alike." The article continues to compare the language and branding choices that Wal-Mart uses to describe its greening initiatives, which compared to competitors like Target, characterize the moves as business decisions instead of using community-centered and innovation-focused language. It is possible that Wal-Mart chooses not to brand its sustainability efforts in order to avoid the criticism that usually accompanies firms that outwardly tout their environmentalism. Another possibility is the fact that Walmart's typical consumers (white, lower and middle-class Baby Boomers) not only fail to identify with environmental brand strategies, but also may view an environmental corporate image as diametrically opposed to that which Wal-Mart currently symbolizes to them: low cost, affordable, and convenient.[64]

2.3 Political Action

Further evidence that Wal-Mart's sustainability strategy embodies the Shared Value model is evident in its political activism on the issue of climate change. Engaging external stakeholder groups has been a core component of Wal-Mart's sustainability

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[64] Kelsey Lindsey, "Why Wal-Mart is a retail sustainability leader (but doesn't really want to talk about it)," *Retail Dive*, August 9, 2016, https://www.retaildive.com/news/why-wal-mart-is-a-retail-sustainability-leader-but-doesnt-really-want-to/423713/.

initiative from its inception, engaging suppliers, academics, and environmentalists; more recently, this engagement has expanded into political activity. While the company has not released statements regarding the importance of political action for environmental policy, Wal-Mart has nonetheless spoken through its participation in various activities. The company notably attended the COP 21 Sustainable Innovation Forum in 2015 and has more recently joined other companies in openly rebuking the Trump Administration's reversal of President Obama's EPA climate change policies.[65]

Although Wal-Mart has increasingly shown willingness to publicly promote climate change mitigation policy since 2015, the corporation cannot be said to be a leader in the activist space. InfluenceMap, a non-profit that evaluates companies based on the degree to which organizations influence climate change policy and legislation, gave Wal-Mart a C+ score. According to InfluenceMap, while Wal-Mart is "lobbying U.S. climate change policy with some positive engagement," it nonetheless remains a member of trade associations that do not support, or actively lobby against, climate regulation.[66] For instance, the company has not expressed a clear position on the Clean Power Plan, a 2014 policy released by the EPA under President Obama; meanwhile, Business Roundtable, a trade association on which Wal-Mart's CEO serves as a board member, solicited President Trump to revise the Clean Power Plan because of its negative impact on innovation and job creation.[67] As a result of its unclear and indirect political action, Wal-Mart has not emerged as a clear sustainability leader; nonetheless, the company's increasing activism may serve as a harbinger of future intentions to amplify its impact.

[65] Christopher Flavelle, "Apple, Wal-Mart stick with climate pledges despite Trump's pivot," *Bloomberg*, March 30, 2017, https://www.bloomberg.com/news/articles/2017-03-30/apple-wal-mart-stick-with-climate-pledges-despite-trump-s-pivot

[66] "Walmart," InfluenceMap, accessed May 2, 2018. https://influencemap.org/company/Wal-mart-Stores.

[67] "A Smarter Approach to Regulation," Business Roundtable, Accessed May 2, 2018, https://businessroundtable.org/sites/default/files/Regulations%20of%20Concern%20Letter%20and%20List%20170222.pdf.

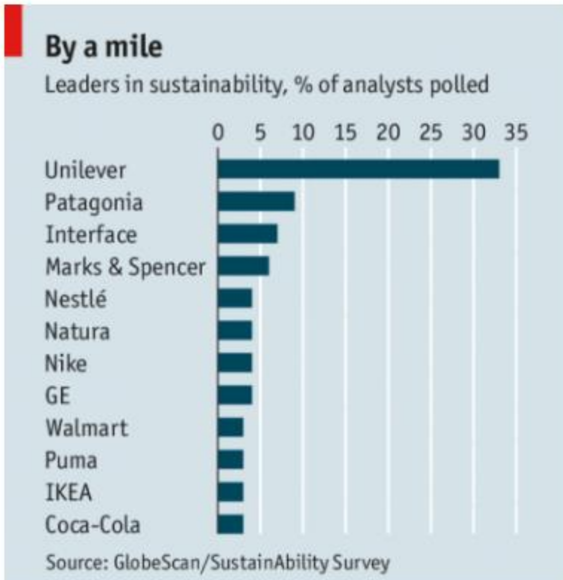
Chapter 3: Shared Value at Unilever

"Mr. Polman's experiment in enlightened capitalism is nothing if not ambitious. And not the least ambitious part of it is the attempt to change the short-term horizons of investors."[68]

Since assuming the role of Unilever CEO in 2008, Paul Polman has overseen a massive shift in the company's vision, brand, operations, and advocacy to become more sustainable. The Anglo-Dutch consumer packaged goods (CPG) company, which owns 400 brands including Dove, Lipton and Ben & Jerry's, has pledged that by 2020 it will "help more than a billion people improve their health and well-being; halve the environmental footprint of [its] products; and source 100% of [its] agricultural raw materials sustainably and enhance the livelihoods of people across [its] value chain."[69] Unilever's transformation, like Wal-Mart's, has not only been accomplished as a means of operational efficiency consistent with the Reinhardt model, but it has also relied on the collective action aspect of the Shared Value model. The main difference between Unilever and Wal-Mart is the degree to which the companies serve as leaders in the sustainability space in the corporate and political realm. Unilever is internationally known as the undisputed corporate leader in sustainability (Figure 6), focusing much of its political and social capital on sustainability causes, whereas Wal-Mart's greening has been less public-facing. Indeed, sustainability has become the core feature of Unilever's brand.

[68] "Unilever: In search of good business," *The Economist*, August 9, 2014, https://www.economist.com/news/business/21611103-second-time-its-120-year-history-unilever-trying-redefine-what-it-means-be.
[69] "Sustainable Living," Unilever. Accessed May 2, 2018. https://www.unilever.com/sustainable-living/.

Figure 6: Leaders in Sustainability, *The Economist*, 2014[70]



3.1 Initial Operational Greening: The Reinhardt Model

In an interview with *Harvard Business* Review, CEO Paul Polman, described how the 2007 financial crisis inspired him to pursue a drastic sustainability agenda, one that followed a new business model than what companies had used previously. According to Polman, "The purpose of business is first and foremost to serve society. It is, after all, not possible to have a strong, functioning business in a world of increasing inequality, poverty, and climate change. The good thing is that, next to our moral obligations to address the global challenges, there is an enormous business opportunity."[71] Although Polman has criticized Milton Friedman's edict to maximize shareholder profits, stating that it has been "interpreted way too narrowly," he nonetheless maintains the idea that a sustainability

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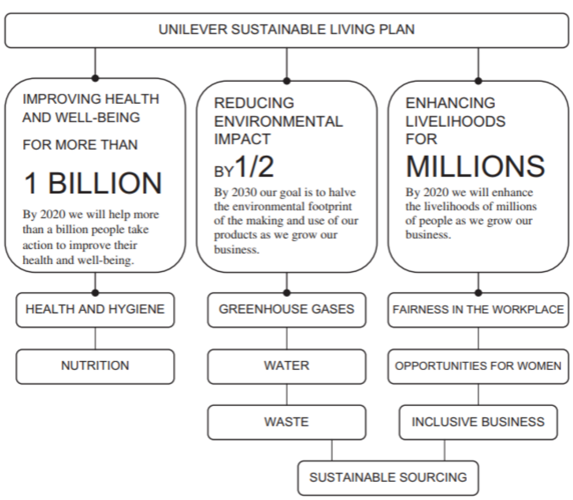
[70] "Unilever: In search of good business."
[71] https://hbr.org/2017/11/the-future-economy-project-qa-with-paul-polman.

program can benefit the company's bottom line.[72] The company's operational greening has primarily focused on supplier relations, customer engagement and branding.

While Unilever had been involved in sustainability work before 2010, that year marked the beginning of the company's current trajectory as a sustainability leader with the launch of its Sustainable Living Plan (Figure 7). On the surface the Plan appears altruistic in nature, but the company emphasizes that there are real business reasons underlying its motivations. According to Chief Sustainability Officer Gail Klintworth, Unilever is "making sure the business is 'future-fit.' If people don't have water, our customer base melts before our very eyes."[73] As of 2015, the Plan had resulted in cost savings of nearly \$300 million in addition to significant climate change mitigation achievements: 1 million tons of CO_2 savings in its manufacturing network and reduction in energy consumption by 20%.[74]

Figure 7: USLP 2015 Revision, Unilever 2015 Annual Report[75]



[72] Ibid.
[73] Korngold, 53.
[74] "Sustainable Living," Unilever, May 18, 2015, https://www.unilever.com/news/Press-releases/2015/Unilever-saves-one-million-tonnes-of-CO-two.html.
[75] Ibid.

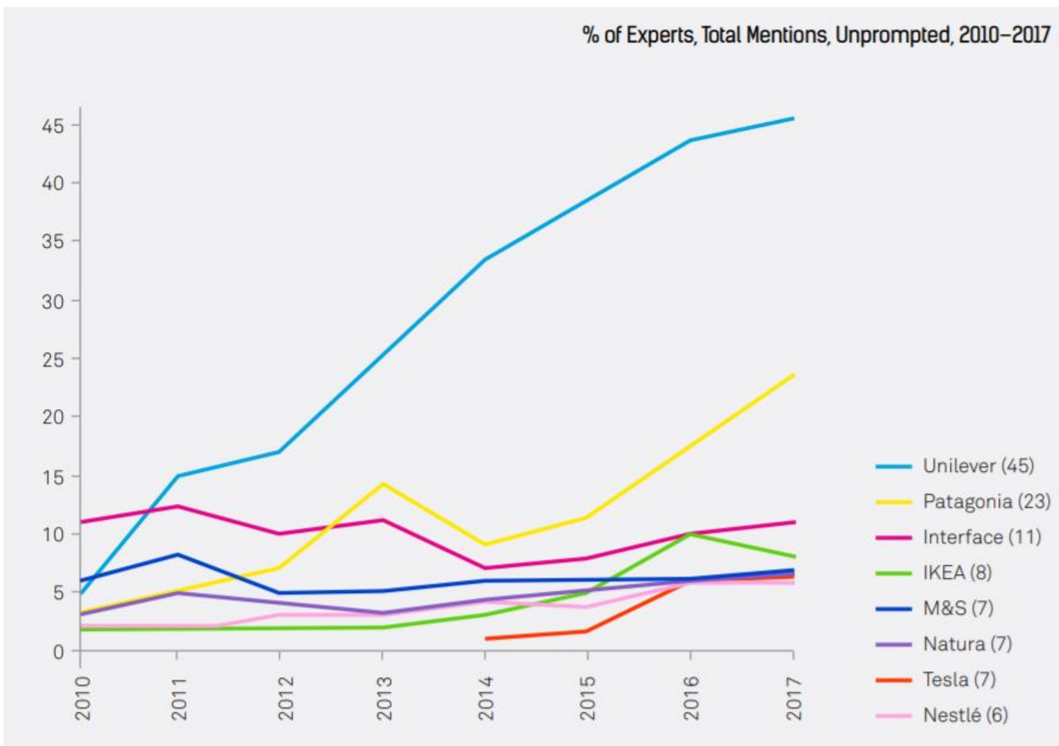
While the Plan encompasses numerous spheres of influence, it notably includes the bold goal of halving its products' greenhouse gas effects across their life cycles. The company identified three areas as the source of its greenhouse gas emissions: 24% from sourcing, 4% from internal operations, and 68% from consumer product use. To tackle the internal operations piece, Unilever has undertaken specific initiatives across departments, including manufacturing, transport, refrigeration, offices, and employee travel.[76] For example, Unilever has a target of achieving 40% renewable energy across its supply chain by 2020, and as a result has made investments in wind, solar, and biomass manufacturing processes at its factories.[77] In terms of altering sourcing or supplier behavior, Unilever engages with portfolio companies by creating sustainable solutions specific to their industries. The company's Sustainable Tea Agriculture project in Turkey, for instance, works with global NGO the Rainforest Alliance in order to train tea farmers to move to become certified in sustainable agricultural practices.[78]

Tactically, the plan has made a notable impact on the firm's operations and finances. Polman moved the company away from quarterly reporting and stopped giving guidance to the markets about the firm's next results in order to encourage managers to manage to long-term growth rather than short-term growth and earnings reports. Moreover, the company's sustainable strategy has rolled up into the larger brand image as a means of differentiating Unilever's products from competitors. Most larger holding companies like Unilever often downplay the overarching corporate brand, instead allowing the individual product brand to take precedence. In contrast with this trend, Unilever has increasingly promoted its corporate brand through advertising and individual product packaging. One

[76] Korngold, 51.
[77] "Unilever saves 1 million tonnes of CO2 – and €244m."
[78] Korngold, 53.

of the main drivers of this behavior is to demonstrate the individual product's sustainable features. According to Unilever Chief Marketing and Communications Officer Keith Weed, the ambition is for the "U" to become "the trust mark of sustainable living."[79] It is evident that Unilever's quest to tie its brand with sustainability has been effective in both the corporate and consumer realms. Research consultancy GlobeScan's 2017 Sustainability Report (Figure 8) showed Unilever as ranked by as the top global corporate sustainability leader for the seventh year in a row, mentioned by 45% of sustainability experts.

Figure 8: GlobeScan's 2017 Sustainability Report[80]



[79] Louise Jack, "Why Unilever is betting big on sustainability," *Fast Company*, February 10, 2015, https://www.fastcompany.com/3051498/why-unilever-is-betting-big-on-sustainability.
[80] Globescan.

In 2017, Unilever performed an international study to test whether consumers considered sustainability factors in their purchasing decisions. According to the report, a third of international consumers have chosen to purchase items from brands based on their social and environmental impact, with 21% of those surveyed stating that they would actively choose brands "if they made their sustainability credentials clearer on the packaging and in their marketing." According to Unilever, this represents more than $1 billion in opportunity for brands that clarify their sustainability metrics.[81] This represents a marked departure from Wal-Mart's strategy thus far, which has largely manifested in supplier-facing efforts without a long-lasting consumer-facing solution.

3.2 COLLECTIVE ACTION: THE SHARED VALUE MODEL

Where Unilever departs from the Reinhardt model is in its focus on the collective action aspect of its sustainability efforts. A 2016 company press release encapsulated the firm's strategy, stating that "a sustainable system is as much a political challenge as a technical or commercial one. Established systems have their own inertia, and even if a better future is possible, it won't happen unless enough people and organizations stand up to show how it can be done, to advocate both for the business action that is necessary, and the changes to the policy frameworks that would enable it."[82] Unilever has specifically focused on changing its customers' behavior in addition to lobbying for stricter environmental policies.

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[81] "Report shows a third of consumers prefer sustainable brands," Unilever, May 1, 2017, https://www.unilever.com/news/Press-releases/2017/report-shows-a-third-of-consumers-prefer-sustainable-brands.html.

[82] "Climate action demands business action and policy change," Unilever, accessed May 2, 2018, https://www.unilever.com/news/Join-in/2016/faster-and-further-climate-action-demands-business-action-and-policy-change.html.

As mentioned earlier, Unilever identified 68% of its greenhouse gas footprint as deriving from consumers' use of its products—for example, the water and energy that is used when customers use Unilever's shampoo in a hot shower. The company acknowledges the difficult situation it creates by acquiring new customers and seeking additional revenues and thereby increasing its carbon footprint, particularly as global consumers gain purchasing power. As a result, the firm is pursuing brand innovation in enabling customers to change their behaviors.[83] A core component of the Sustainability Living Plan outlines the company's Five Levers for Change (Figure 9), which systematically identify the barriers, triggers, and motivators that affect customer behavior.

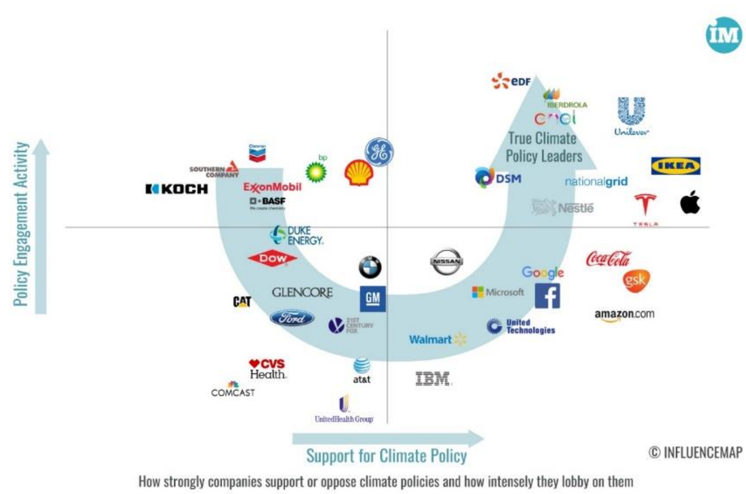
Figure 9: Unilever's Five Levers for Change[84]

[83] Korngold, 51-52.
[84] "Inspiring Sustainable Living: Unilever Sustainable Living Plan," Unilever, accessed May 2, 2018, https://www.unilever.com/Images/slp_5-levers-for-change_tcm244-414399_en.pdf.

As an example, Unilever used this model to identify that it could nudge customers to purchase more environmentally-friendly, concentrated Omo and Persil laundry liquids because they were lighter and more convenient, resulting in reduced water usage, waste per bottle, and shipping costs.[85]

Another way that Unilever embraces collective action strategies is in its active role calling for stricter corporate regulations. Influence Map, a nonprofit that analyzes corporate policy influence, ranks Unilever as one of the top corporate climate policy leaders (Figure 10), and gives the company a grade of A- in terms of the degree to which it influences climate policy and legislation—the only thing keeping the company from a perfect score is the fact that it remains a member of the European Chemical Industry Council and the Business Council of Australia, which appear to have resisted climate change.[86]

Figure 10: InfluenceMap's Corporate Carbon Policy Footprint – the 50 Most Influential (2017)[87]



[85] Ibid.
[86] "Unilever," InfluenceMap, accessed May 2, 2018, https://influencemap.org/score/Unilever-Q1-D6.
[87] "Corporate Carbon Policy Footprint—the 50 Most Influential," InfluenceMap, September 2017, https://influencemap.org/reports/Reports?type=287770&year=287647.

An initial shift in Unilever's corporate lobbying behavior was evident in 2014, when the company withdrew from Business Europe, the preeminent lobbying group for corporations in the European Union, reportedly because the group opposed unilateral EU climate action.[88] Leading up to the 2015 Paris Climate Change Conference (COP21), Unilever was largely perceived as a leader in climate change policy as Polman used his position to advocate for a strong UN climate treaty. In 2013, he stated, "For the UN Climate Change Conference to be a success next year in Paris, Europe needs to set itself bold targets on greenhouse gas emissions and energy efficiency that are an example to the rest of the world."[89] While Unilever was ultimately joined by 154 other corporate leaders at COP21, Unilever stood alone as the clear leader in precipitating the policy talks and change among the business community. Unilever's political advocacy has continued since COP21, with the company participating in numerous trade and lobbying organizations.

The company's climate activism has become inextricably linked with Polman's activism as CEO as he works to influence corporate behavior on a macro scale. In its profile of Unilever's transformation in 2014, *The Economist* stated, "Yet although Unilever may be able to buy its own raw materials from sustainable sources, it alone is rarely big enough to make a difference to any given commodity worldwide. As a result, Mr. Polman spends a lot of time trying to persuade his peers and rivals to act more sustainably, too." In addition to numerous other accolades, Polman was notably recognized as a United Nations (UN)

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[88] Megan Darby, "Major companies use lobby groups to water down EU climate policy," *Climate Home News*, March 30, 2015. http://www.climatechangenews.com/2015/03/30/major-companies-use-lobby-groups-to-water-down-eu-climate-policy-study/.

[89] Clare Saxon Ghauri, "Corporate leaders call for EU to agree at least 40% emission reduction target to secure jobs and growth in Europe," *The Climate Group*, October 21, 2014, https://www.theclimategroup.org/news/corporate-leaders-call-eu-agree-least-40-emission-reduction-target-secure-jobs-and-growth.

Champion of the Earth in 2015 "for championing equitable and sustainable business practices for a better world."[90]

[90] *The Economist*, "Unilever: In search of good business."

Conclusion: The Future of Corporate Sustainability

In his book about Wal-Mart's greening initiatives*,* Edward Humes concludes by stating that although large companies like Wal-Mart can never be fully sustainable, the retail giant has nonetheless "led the business world toward a new age of sustainability."[91] Indeed, the basic capitalist nature of multinational companies like Wal-Mart and Unilever prevents them from being sustainable in the purest sense of the word, but that does not discount the significant momentum they have built in reversing the centuries-long trend of capitalism directly opposing environmental preservation. No longer is sustainability relegated to niche company departments like public relations; instead, it increasingly occupies a role in C-suite level strategic conversations. Sustainability is not a whim of the current era, evidenced by the millions of dollars spent on corporate sustainability initiatives and the joint, collective actions of industry groups. Moreover, the achievements of individual firms like Wal-Mart and Unilever are notable for their cost and environmental savings, particularly given the influential impact they have had on the operational behavior of other competitors and suppliers.

While both Wal-Mart and Unilever have experienced success in implementing sustainability measures to their core businesses, Unilever has emerged as the clear sustainability leader in the corporate world. Perhaps the differences in their success emerges from the very fact that Unilever has wholly embraced involving the consumer in its greening efforts through education, marketing and branding. Wal-Mart, on the hand, has been much more cautious to alter its brand image or communicate its transformation to its customers. While this can certainly be understood based on the historical role and customer base Wal-Mart has served, it nonetheless raises the question of whether a company can

[91] Humes, 225.

truly transition into a shared value model without involving its customers in the process. With the issue of climate change, maximizing shareholder value requires that companies pursue a shared value strategy by engaging external stakeholders—especially customers—and advocating for climate regulation. Failing to successfully adopt the endorsement and participation of key partners risks the ultimate success of the sustainability operation.

More broadly, the success of future corporate sustainability depends on the ability of environmental leaders to manage risks to the greening progress. Namely, these risks include public policy cohesion and the customers' reaction to greening initiatives. In the public policy realm, international progress on climate change commitments was moving in a more cohesive direction until President Trump withdrew from the Paris Climate Agreement in 2017. Although corporate leaders have publicly denounced the withdrawal, it has nonetheless cast uncertainty on the future of international environmental policy. For customer-facing risks, companies must clearly communicate their greening initiatives to consumers, identifying the key value proposition they are creating in their products. Although it can be argued to have been a strategic choice, Wal-Mart has clearly struggled in this respect; meanwhile, Unilever enjoys the brand recognition that comes with customer knowledge of its sustainability measures. Economists continue to evaluate the degree to which customers are willing to pay for green products, and increased research in this area will help companies identify areas of opportunity to capture value.

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